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In response to agricultural shippers, who rely on good market information and assistance, USDA created this semi-annual report as an update on the ocean container market's cost and service trends. The report is the result of input from large and small agricultural shippers, including shippers' associations, controlling over 150,000 40-foot equivalent units, split nearly evenly between dry and temperature-controlled (refrigerated and frozen). Input was also received from vessel and non-vessel operating ocean carriers, as well as freight forwarders, in key U.S. agriculture import and export trade routes. Although it is not a statistical sampling of the population of agricultural exporters, every attempt has been made to contact a broad range of shippers.

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Overview
The ocean shipping environment in late spring 2003 is less favorable for agricultural shippers than in the previous year. Ocean freight rates are up; capacity availability is down, particularly for refrigerated cargos. Surcharges continue to fluctuate and have become a more substantial part of negotiated contracts. Reduced capacity and continued uncertainty about rates are forcing shipping lines and agricultural shippers to leave contracts open and, thus, feel less satisfied with the terms they have negotiated. Shippers are, therefore, finding it more complicated to negotiate long-term rates. As one seasoned agricultural shipper has noted, "This is the toughest year for contract negotiations that I have ever experienced; the carriers are not willing to negotiate much." Also, as a result of the reduced capacity, shippers are now faced with reduced time available to load or unload the container and return it to the shipping line, also known as "free time."

The West Coast port disruptions, begun in 2002, remain a serious concern, as some port congestion continues and is expected to increase, especially during peak agricultural import and export shipping seasons.

Agricultural shippers also continue to voice concerns over the anticipated U.S. Customs regulations that may require export documentation up to 24 hours prior to the cargo being loaded onto the ship. This documentation may increase shipping costs and may cause cancellations of shipments if the required data are not available.

Ocean Freight Rates Are Up
Negotiated freight rates are significantly higher this year, compared with last year. General rate increases (GRIs) announced in recent months have ranged from $200 to $900 per container, primarily for inbound (imported) cargos. For export cargos, GRIs are in the range of $100 to $300 for a dry (not temperature-regulated) container. Third quarter GRIs were just announced for refrigerated containers. The increases range from $800 to $1,000 per 40-foot equivalent unit. See Appendix 1.

Carriers are also increasing rates by separating rates and surcharges. Previously, they were willing to negotiate a rate that included surcharges, such as fuel and currency adjustments. However, in 2003, few if any contracts are being signed with all rates and charges included in the negotiated rate, known as an "all-inclusive" rate. Currently, virtually all contracts provide a negotiated rate in addition to specified surcharges.

Some shippers are also reporting that an emergency bunker fuel charge is being assessed on top of the regular bunker fuel charge in shipments to South America. However, this additional assessment does not appear to be the case in the Transatlantic and the Transpacific trade lanes.

Open-Ended Service Contracts Impact Shippers
Contract terms this year give both carriers and shippers the option of amending freight charges as the year progresses. This option, however, appears to be sought more by carriers than by shippers.

Most contracts currently being negotiated are now subject to the carriers' governing service contract tariff on public file at the Federal Maritime Commission (FMC). This contract states that, should carriers file amendments to that tariff during the term of the contract, those amendments apply to the shipments under the contract. Typically, amendments to the tariff include increases in surcharges (see surcharge discussion below) and a GRI.

The potential for new or additional GRIs is currently a primary concern of agricultural importers and exporters. New GRIs can be added by amendment after only 30 days' notice at any time during the contract term and can increase transportation costs to a level that changes or eliminates the profit margin on the sale of the agricultural cargo.

Agricultural shippers are looking for ways to protect themselves from new GRIs. An alternative finding its way into contracts is the "mutual GRI clause." During the contract term, the carrier may request a GRI; the shipper has the option to accept the GRI, negotiate a lower GRI with the carrier, or reject the GRI. However, should the shipper reject the GRI, the carrier has the option to cancel the contract.

In some cases, agricultural shippers report the inability to assume the risk of a higher GRI and are gaining provisions with options to withdraw from the contract, in case they find they must forego foreign sales, should transport costs increase substantially. In other cases, agricultural shippers are hesitant to commit large volumes of shipments when the total costs of transport during the entire life of the contract are unknown at the time of contract signing.

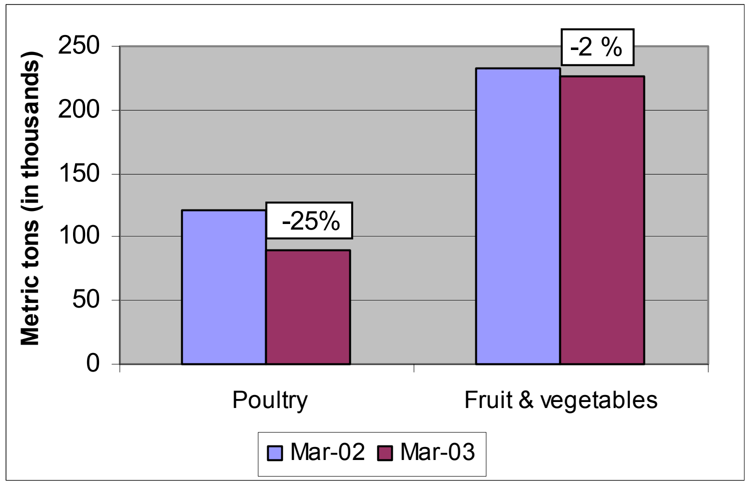
Another concern about open-ended contracts is the widely accepted practice that a carrier can terminate a contract upon satisfaction of the minimum quantity commitment (MQC). In previous years, a shipper would commit a relatively small volume of cargo MQC to a carrier under a contract with the expectation that, once the commitment had been met, the carrier would continue to honor the other contract terms, such as rates, for as much additional cargo as the shipper tenders.

The current trend, however, is that carriers are terminating the contract upon satisfaction of the MQC, and shippers are becoming increasingly aware that continued carrier service beyond the MQC is not assured. As a result, shippers are now seeking to increase the MQC to reflect more accurately their expected total shipping volumes.

Limited Capacity for Refrigerated Cargo Affecting Outbound Shipments
Refrigerated shipments in 2003 are reportedly down, relative to the same time last year. During late spring 2003, beef, pork, and poultry exporters reported an acute shortage of refrigerated railcars for movements to West Coast ports and an acute shortage of refrigerated ocean containers.

For example, poultry, one of the United States' top exported commodities, though down 3 percent for the first quarter of 2003, compared with 2002, is down 25.3 percent for March 2003, perhaps a direct result of the refrigerated container shortage. Other refrigerated shipments, such as fruit and vegetables, also show decreases for March. See figure 1. One shipper reported a reduction from 30 containers per week to one. Agricultural exporters are reporting cancelled or lost sales as they are unable to deliver refrigerated products to foreign customers due to this lack of available refrigerated containers. See appendix 2 for more details.

Figure 1. Refrigerated shipments of poultry and fruit and vegetables for March 2002 and March 2003



The following three factors have combined to create an unprecedented shortage of refrigerated containers:

- Many of the refrigerated ocean containers are being positioned in South America for import shipments to the United States, particularly in Chile, rather than at U.S. West Coast ports.
- At least two carriers, MaerskSealand and APL, have commitments to provide equipment and ships to serve the U.S. military effort. As a result, many refrigerated containers in their fleet are being utilized in the Middle East.
- Some refrigerated containers may be kept idle in favor of dry containers, which are more lucrative in import trades from Asia.

In addition to limited capacity, rates are significantly higher this year for use of refrigerated containers either from Chile or the United States to Asia. Some carriers are expecting refrigerated rates to increase further.

Agricultural Shippers Seeking Alternatives to West Coast Ports

Agricultural exporters view the congestion that resulted from 2002's West Coast port disruption as an ongoing problem. They also agree that, once the high volume commodities such as cotton, dried fruit, nuts, etc. begin to move in high volume during September and October, severe congestion will return to West Coast ports. And, there is certain skepticism as to when promised port modernization, increased efficiency, longer gate hours, and reduced congestion will become a reality at West Coast ports.
As a consequence, like many importers and exporters nationwide, agricultural shippers are considering long-term options to use East and Gulf Coast ports.

In addition to the West Coast port congestion, MaerskSealand has suspended its all-water route from the West Coast to Europe. While this could reduce congestion at West Coast ports (as shipments are now routed to Houston) the alternatives for agricultural shippers requiring all-water shipping to Europe are now to ship through Houston and to pay a "land bridge surcharge" of approximately $800. Other carriers who maintain an all-water service from West Coast ports to Europe have announced a GRI instead of a land bridge surcharge.

As a result, agricultural shippers, particularly those in the Central Valley of California who traditionally used West Coast ports to ship to Europe, are now faced with two alternatives: reconfigure their logistics to route cargo to the Gulf (such as the Port of Houston) and pay the extra intermodal freight charges or continue to ship via West Coast ports on the remaining carriers but pay a substantial GRI while remaining uncertain about congestion problems.

Reduced Shippers' "Free Time" Affects Shippers' Bottom Line

For certain low-valued commodities, seemingly minor changes to shipping agreements can have a significant impact on the ability to ship economically. For example, after a shipment arrives in Japan, the carriers have traditionally provided 12 days "free time." Free time is the time during which the container can remain in the possession of the shipper or its import customer. However, the carriers now have a greater need to recover the container to meet the demand for outbound cargo to the United States. As a result, free time has recently been reduced to 8 days. Shippers needing the full 12 days must, therefore, pay for the additional 4 days, which may eliminate the profit on the sale of the product in that container.

Similarly, poultry exporters note a significant increase in the cost of shipping to Hong Kong because of the reduced amount of free time available in Hong Kong offered by Westbound Transpacific Stabilization Agreement (WTSA) carriers and transportation rate increases. WTSA is a talking agreement among 13 major carriers who discuss rates and service in the U.S.-Asia trade lane.

New Cargo Documentation Requirements Increase Compliance Difficulties

Following the mandate of Congress, the U.S. Customs Service has implemented the 24 Hour Rule requiring that ocean carriers submit complete cargo manifest information to Customs 24 hours prior to loading in a foreign port. This rule impacts only import cargo for now, although Congress has also mandated that Customs initiate a similar advance information (but not necessarily cargo manifest information) collection mechanism for export cargo, effective no later than October 1, 2003.

Since enforcement of the 24 Hour Rule for imports began on February 1, agricultural shippers report that the primary difficulty with the 24 Hour Rule relates to the inconsistency of carriers regarding postloading corrections in the cargo manifest data submitted to Customs. Some carriers state that changes may not be made after initial submission, while others will make corrections (such as a more accurate count of the cargo actually loaded). Consistency of practice by the carriers would facilitate implementation of the 24 Hour Rule.

Many shippers, consolidators, and carriers have adjusted to the requirements. Most agricultural shippers report that, once they have educated their suppliers, the 24 Hour Rule does not seem to be a problem. Education of suppliers continues, and agricultural importers must assure that the description of the cargo and the consignee is accurate and complete; however, not all agricultural importers report the ability to adapt to the new 24 Hour Rule.

Smaller shippers, in particular those who are dependent upon consolidators obtaining specialty food items from unrelated small suppliers, are encountering difficulties with compliance. Also, many agricultural importers who depend on non-vessel operating common carriers (NVOCC) to organize, consolidate, and document imported food items report significant problems in adapting the 24 Hour Rule to NVOCC shipping practices. Customs and the NVOCC community are working to resolve those difficulties. The primary challenge is to adapt the Customs' Automated Manifest System to handle NVOCC data submissions so that it keeps the information confidential and allows a smooth delegation of responsibility between the NVOCC and the vessel operating ocean carrier.

Cargo security initiatives, including container inspections and advance documentation requirements, also appear to be slowing imports of specialty food items from South Asia, most notably Pakistan, Jordan, Syria, and Indonesia. For food items from these countries, importers are experiencing considerable delays in delivery times.

In addition to compliance difficulties, the new documentation requirements provide a basis by which additional fees are being assessed by ocean carriers. There are reports of a $25 security fee, sometimes charged as a "bill of lading" or "documentation" fee.

Shippers Wary of New Export Requirements

The agricultural export community presently has numerous concerns regarding anticipated implementation of an advance data submission program similar to the current 24 Hour Rule for export cargos. Agricultural exporters are uncertain about their ability to provide accurate data on time when agricultural commodities are often still in the packing house or even growing on the stock, vine, or tree 24 hours prior to being loaded onto the ship. Shippers also worry that the inability to provide such information may prevent an order from being fulfilled. Agricultural exporters are closely watching Customs' plans on this new export data mechanism and will continue to provide feedback.

As a result of the feedback from exporters, Customs may only require that exporters continue to use the Automated Export System (AES) Option 4, the system that is in place now and is already being used by many exporters. Option 4 actually allows for submission of cargo data after a ship has sailed. This system currently seems to be working very well for agricultural exporters.

A recently announced exporter certification proposal by the U.S. Census Bureau also causes concern. Concerns focus on whether this proposal will impose additional costs on exports by requiring additional Federal regulation and paperwork and new fees that may accompany the additional required certification.

Conclusion

As the shipping environment becomes less favorable, agricultural shippers are needing to reassess how to ship their products economically. With ocean freight rates high and refrigerated containers scarce, shippers must carefully select what transactions are economically feasible. With West Coast port congestion continuing, shippers will be examing new routes to Europe and South America. With open-ended contracts continuing, shippers will also be forced to monitor changes in surcharges and rates and the bottom line, which may ultimately affect the profit margin on the foreign sales.

Appendix 1: The Cost of Exporting Agricultural Products to Asia

With the shipping lines moving from their "all-inclusive" rates to separating out surcharges and filing numerous general rate increases (GRIs), rising rates are expected, not only for public tariffs and surcharges, but also for contractual negotiated rates. The announced GRIs range from $800 to $1,000 for refrigerated commodities and $100 to $300 for dry commodities. To look at the effect on rates for agricultural products, apples and hay have been chosen as rate indicators for the refrigerated and dry commodities, respectively USDA has been tracking ocean container rates since 1997 using selected Asian countries and commodities as indicators. Ocean carriers have already posted tariffs showing significant increases for the second quarter 2003 (figure 1). The projected June rates include the reported GRIs and new bunker fuel surcharge, currently $230 per 40-foot container, up from $185 in the first quarter. Rates are increasing significantly because of an acute shortage of temperature-controlled containers that are either in the Middle East for the war effort or in South America because of the increase in trade to the area. The overall increases since June 2000 may be as much as 37 percent. See table 1.

Figure 1. Ocean freight rates for fresh apples, June 2000-2003

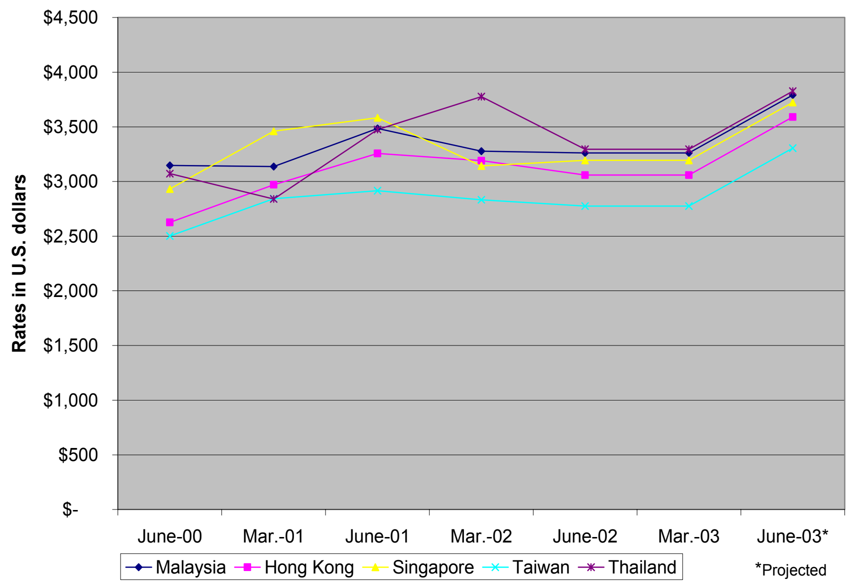


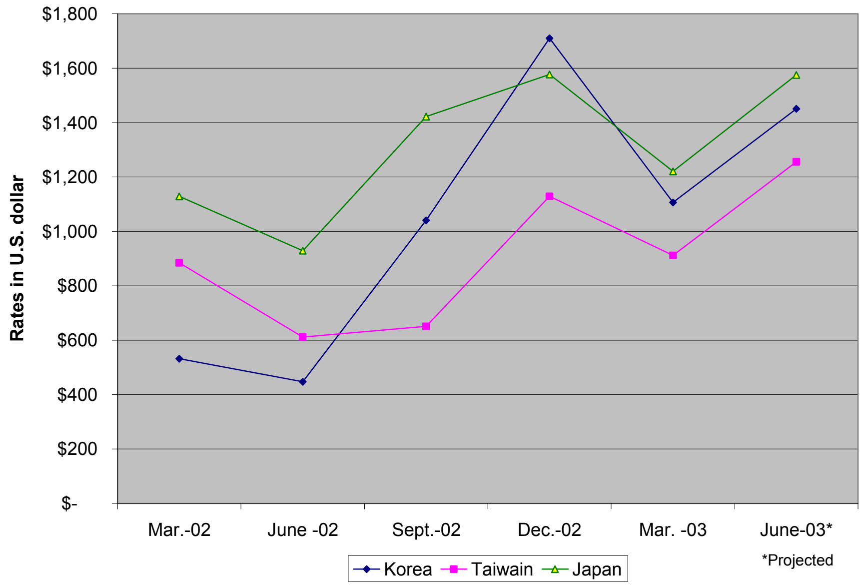
Table 1. Percent increases for ocean rates for fresh apples, March 2002–June 2003

Destination	**% increase**	**% of total TEUs* exported** (13,180 containers in 2002)
Hong Kong	37%	14%
Taiwan	32%	24%
Singapore	27%	2%
Thailand	25%	4%
Malaysia	20%	3%
	32% Average increase (weighted)	**47%** (Total % of the five countries)

*TEU=20-foot equivalent unit

Since the GRIs are set without regard to commodity value, GRIs have a greater effect on agricultural exports such as hay, cotton, and animal feed. Reporting of hay shipping rates is included in this analysis since 72,500 TEUs of hay are exported each year. Almost 99 percent of hay exports are to Japan, Taiwan, and Korea. Figure 2 shows that rates for hay have also fluctuated over the last year with an overall increase of as 173 percent since June of 2000. See table 2.

Figure 2. Ocean freight rates for hay, March 2002-June 2003.



The three biggest importers of U.S. hay, Korea, Taiwan, and Japan, have seen rates moving upward since June of 2002, peaking during December 2002. The rates fell during the first quarter of 2003, but with the announced increases, a major jump is projected during June 2003.

Table 2. Percent increases for ocean rates for hay, June 2000 to June 2003

Destination	**% increase**	**% of total containers exported** (72,500 containers in 2002)
Korea	173%	15%
Taiwan	42%	8%
Japan	40%	76%
	60% Average increase (weighted)	**99%** Total % of the three countries

Appendix 2: U.S. Outbound Refrigerated Container Shipments Decrease

Based on a 5-year average, March is the most active month for U.S. outbound shipments of refrigerated commodities, creating an increase in demand for refrigerated containers during that month each year. See figure 1. During March of this year, when demand for refrigerated containers again increased, the supply of refrigerated containers decreased. Containers have been diverted to assist in the war efforts, and the demand for containers is increasing in South America.

Furthermore, there is a lack of available space on inbound ships from Asia to return empty refrigerated containers to the United States. More than 14 percent fewer refrigerated containers were shipped in March of 2003, compared with the same month in 2001 (figure 2), reflecting this decreased availability of refrigerated containers for U.S. exports.

Figure 4. Seasonality of U.S. outbound agricultural refrigerated shipments, 5-year average (1998-2002)

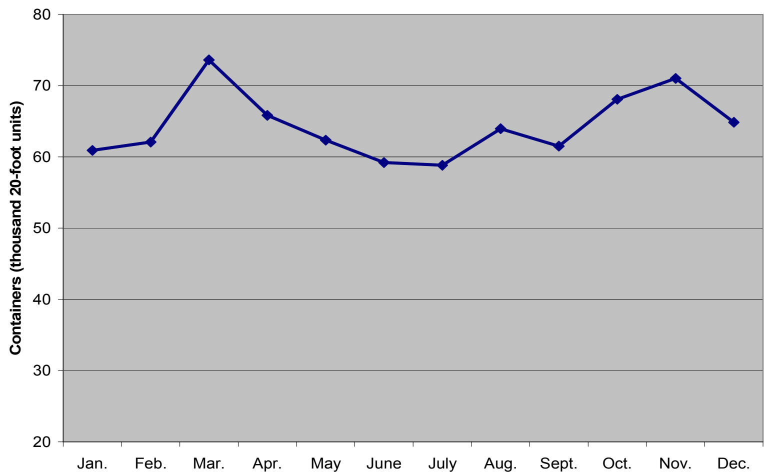
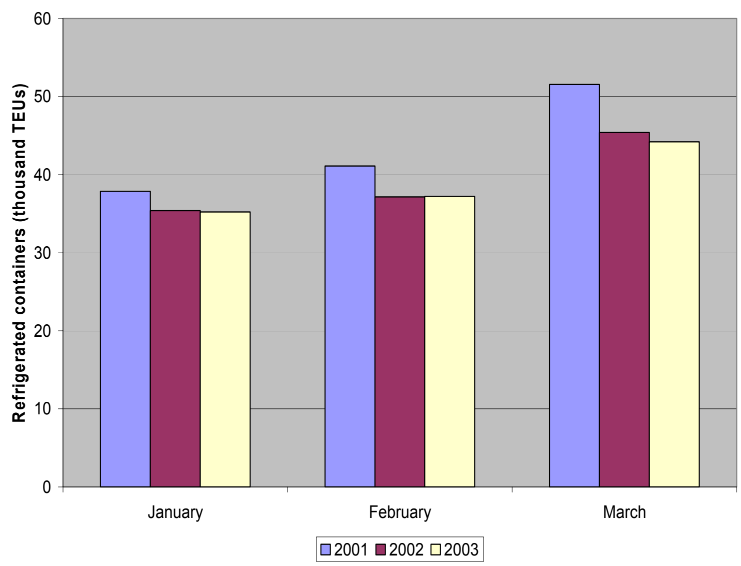


Figure 3. Refrigerated shipments, United States to Asia, Quarter 1, 2001-2003



Source: Port Import Export Reporting Service (PIERS), Journal of Commerce, New York, NY, 1998-2003